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Financing in Europe! A-share listed companies issue GDRs in "a group", and it is becoming a trend to list in multiple places?

Capital market connectivity between China and Europe is unprecedentedly hot.

On July 28, the China-Swiss Securities Market Interconnection Depository Receipt Service was officially launched. On the same day, the GDR (Global Depositary Receipt) of four listed companies, Keda Manufacturing, Shanshan, GEM and Guoxuan Hi-Tech, were officially listed on the Swiss Stock Exchange (hereinafter referred to as "Swiss Exchange").

Specifically, the issue prices of Keda Manufacturing, Shanshan Shares, GEM, and Guoxuan Hi-Tech were US$14.43, US$20.64, US$12.28 and US$30 each, raising US$173 million, US$319 million, US$346 million and US$685 million respectively.

Since the release of the "Regulations on the Interconnection of Depository Receipts Business of Domestic and Overseas Stock Exchanges" in February this year, the number of A-share listed companies planning to issue GDRs overseas has increased significantly.

According to the incomplete statistics of Jiemian News reporters, in addition to the four listed companies, companies including Sany Heavy Industry, Lepu Medical, Fangda Carbon, Joincare, Weir Shares, Dongpeng Beverage and other companies have also announced the GDR application process . And these companies have chosen to list on the Swiss Stock Exchange.

A-share companies issue GDRs “in herds” in Europe

The so-called GDR refers to stocks or bonds that are publicly issued around the world and can be traded in more than two financial markets. The GPR of the four listed companies on the Swiss Exchange this time raised between $100 million and $800 million.

As early as November 2018, the Shanghai Stock Exchange issued the "Interim Measures for the Listing and Trading of Depository Receipts for the Interconnection between Shanghai Stock Exchange and London Stock Exchange", marking the first "Shanghai-London Stock Connect". Since then, domestic A-share companies can directly raise capital in the UK market by issuing GDRs.

According to Wind data, as of now, there are 5 companies issuing Shanghai-London Stock Connect GDRs. The most recent one is Mingyang Wisdom, whose GDR was officially listed on the London Stock Exchange on July 13.

In December 2021, the China Securities Regulatory Commission will expand the scope of the original "Shanghai-London Stock Connect". The China Securities Regulatory Commission issued a revised draft of the “Regulations on the Interconnection of Depository Receipt Businesses between the Shanghai Stock Exchange and the London Stock Exchange (for Trial Implementation)”, tentatively named as “Regulations on the Interconnection of Depository Receipt Businesses in Domestic and Overseas Stock Exchanges”, to revise and improve the original "Shanghai-London Stock Connect" mechanism.

On February 11 this year, the China Securities Regulatory Commission issued the “Regulations on the Supervision of Depository Receipt Business for the Interconnection of Domestic and Overseas Stock Exchanges” and began to implement them. Domestically, qualified listed companies on the Shenzhen Stock Exchange were included, and overseas were expanded to Switzerland and Germany.

On March 25, the Shanghai and Shenzhen Stock Exchanges issued the "Interim Measures for the Interconnection of Depository Receipts Listing and Trading with Overseas Stock Exchanges" to further improve the relevant rules.

Xu Jia, executive director of the Investment Banking Department of CICC, told Jiemian News that in order to serve the opening-up strategy and deepen the mutually beneficial cooperation between Chinese and European capital markets, the "Regulations on the Interconnection of Depository Receipts for Domestic and Overseas Stock Exchanges" will be released in early 2022. The "Shanghai-London Stock Connect" has been expanded to the "China-Europe Stock Connect", and strongly encouraging large-scale A-share listed companies to issue and list "China-Europe Stock Connect" Global Depository Receipts (GDRs) in Switzerland, the United Kingdom and Germany.

Xu Jia believes that the current "China-Europe Connect" interconnection product has undoubtedly opened a new channel for A-share listed companies to finance in Europe, and is an important and effective way for domestic listed A-share companies to achieve overseas financing, especially for overseas investors. Companies with needs such as financing, international business development, and capacity building can do more with less. At the same time, the advantages brought by overseas listing to enterprises also include building an international brand and image, optimizing the shareholder structure, and deepening the degree of internationalization. GDR is a financing product with advantages and characteristics.

Drew Bernstein, co-chairman and co-founder of MarcumBP, told Jiemian News that exchanges are also companies, and the door to listing is open for Chinese companies. Generally speaking, the European market is not that diverse. However, companies that want to go public still want to grow and gain access to capital and scale. Decisions about where to list are multi-faceted. It is not a linear process and is affected by external factors including macroeconomics.

Wang Hongying, president of the China (Hong Kong) Financial Derivatives Investment Research Institute, believes that from the perspective of capital market security and bilateral trade integration, European capital markets are more attractive to Chinese entrepreneurs, especially in the context of the recent introduction of the SEC's Foreign Company Accountability Law that more and more Chinese companies will seek to list in Europe.

Why is the Swiss Exchange particularly favored by many A-share companies among many major European capital markets?

Some analysts pointed out that compared with other major capital markets in Europe, the Swiss Exchange valuation price is relatively high, and the impact of the valuation difference after the listing of Chinese companies is relatively small.

Zhou Mingqi, chief analyst of Jingjian Think Tank, believes that the issuance of GDR is denominated in foreign exchange, and the Swiss franc is also a relatively hard currency internationally. And Switzerland's permanent neutrality makes its financial system more secure, and domestic assets are less affected by international situations.

Multiple listings are becoming a trend?

In recent years, it has become a trend for Chinese companies to go public in many places, including the return of Chinese stocks to Hong Kong, the listing of Chinese companies in Singapore, and the listing of some companies in Europe.

CICC research pointed out that with the improvement of the system of eastbound business, qualified overseas companies are expected to enter the A-share market through this mechanism. At the present, no sole overseas company has entered the A-share market in this form. It is expected that this process will bring high attention from investors in the future; the westbound business is expected to further enhance the enthusiasm of domestic listed companies to issue GDRs overseas with the accelerated mechanism. From the evolution of the Shanghai-London Stock Connect to the depository receipt interconnection mechanism, there may be room for further expansion of the mechanism in the future, such as adjustments to the scope of overseas markets and enterprise access conditions.

CICC also believes that the depositary receipt interconnection mechanism will further enhance the internationalization of China's capital market and help China's two-way opening up from the perspective of the capital market. In the long run, the internationalization of China's capital market, including the interconnected depositary receipt business, will connect China more closely with the world, and the world will have a more correct understanding of China.

Drew Berstein pointed out that Hong Kong is a very attractive market for Chinese companies, as is SGX. It is not expected that multiple listings, including European exchanges, will become a trend. However, more companies are expected to continue dual or even triple listings in the US, China and Singapore. With that, MBP will also follow the growing trend of triple listing and expand its services to the Singapore market.

Wang Hongying believes that the development of Chinese enterprises is increasingly showing the characteristics of internationalization. Correspondingly, from the perspective of investment and financing, in the context of international business development, Chinese enterprises need to find global resources for real industry developmental support. Seeking listings in different markets around the world has become a major trend in the development of the capital market for Chinese companies.

At the same time, he believes that risk management is also one of the elements to be considered. "For example, companies such as Shanshan and Sany Heavy Industry, which submit applications on the Swiss Exchange, also need to consider the localized nature of their own business development in Europe, as well as the relatively relaxed regulatory environment of the European stock exchange."

Wang Hongying further pointed out that the overall price-earnings ratio of overseas exchanges, especially companies going to the European and American markets for financing, will be lower than that of domestic listings. Under the current background of relatively weak capital market in China, there are many companies queuing for listing, and it is difficult to conduct investment and financing activities in the capital market in the short term. "Therefore, moving overseas, accelerating the development of investment and financing activities, and improving the efficiency of industry-finance integration are also a major reason why many Chinese companies consider listing overseas."